



California

Forms & Instructions

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1997

Los Angeles Revitalization Zone
Booklet

This booklet contains:

FTB 3806, Los Angeles Revitalization Zone Deduction and Credit
Summary

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**State of California
Franchise Tax Board**

Instructions for Los Angeles Revitalization Zone Businesses

— Form FTB 3806

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 1997**, and to the California Revenue and Taxation Code (R&TC).

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General Information

California has established 3 types of economic development areas that have related tax incentives:

- Enterprise zones;
- The Los Angeles Revitalization Zone (LARZ); and
- Local agency military base recovery areas (LAMBRA).

A business may qualify for special deductions and credits if it operates or invests in a trade or business located within the geographic boundaries of one of these economic development areas.

Note: For information about enterprise zone tax incentives, get FTB 3805Z, Enterprise Zone Business Booklet. For information about local agency military base recovery area tax incentives, get FTB 3807, Local Agency Military Base Recovery Area Booklet.

A What's New

Legislation. California legislation enacted this year:

- Requires the Franchise Tax Board (FTB) to provide information to the California Legislature and the Trade and Commerce Agency (TCA) regarding the number of businesses using the LARZ tax incentives, types of LARZ tax incentives being used and in which LARZ businesses are claiming the tax incentives.

Note: In order to help us meet this requirement, please be sure to attach form FTB 3806 to your return.

- Provides that taxpayers may use the LARZ net operating loss deduction against the income derived from a business in an expired zone as if the zone remained in existence.
- Removes the election provision for the LARZ sales or use tax and replaces it with a provision limiting the taxpayer to one sales or use tax credit.

Minimum Wage. The California minimum hourly wage increased on March 1, 1997, (pursuant to the passage of Proposition 210, the Living Wage Act of 1996) from \$4.75 to \$5.00. A subsequent increase occurred on September 1, 1997, when the federal minimum wage (pursuant to Public Law 104-188) increased to \$5.15. The next increase will occur on March 1, 1998, when the California minimum wage (pursuant to the passage of Proposition 210, the Living Wage Act of 1996) increases to \$5.75. See Part I for how the minimum wage increases affect the hiring credit.

B Los Angeles Revitalization Zone

The LARZ was established to aid economic development in areas that suffered damage during the civil unrest that occurred in the County of Los Angeles during April and May 1992. The LARZ became operative on May 1, 1992, and applies to businesses with taxable or income years beginning on or after January 1, 1992. The LARZ will remain in effect until December 1, 1998.

At the time this booklet went to press, the California Legislature was considering legislation that would extend the LARZ.

Businesses operating within the LARZ do not need to receive prior approval to take advantage of the special tax incentives.

C Purpose

Use this booklet to determine the correct amount of deductions and credits that the business may claim for operating or investing in a trade or business within the LARZ. Complete the worksheets in this booklet for each deduction or credit for which the business is eligible. Then enter the total deductions and credits on form FTB 3806, Los Angeles Revitalization Zone Deduction and Credit Summary.

D How to Claim Deductions and Credits

To claim any LARZ deduction or credit, the business **must attach** form FTB 3806 (included in this booklet) to its California return. So that the return will be processed correctly:

Form 540 filers: Write "LARZ" in the top left margin of Side 1 of Form 540.

Form 100 filers: Claim LARZ incentives on Form 100, line 14, line 20 and line 24 through line 27, as applicable.

Form 100S filers: Claim LARZ incentives on Form 100S, line 12, line 19 and line 23 through line 26, as applicable.

Form 109 filers: Check the "yes" box for the enterprise zone, LARZ or LAMBRA question on the top of Side 1 of the return.

Attach a separate form FTB 3806 for each business you operate or invest in that is located in the LARZ.

Note: Be sure to keep all completed worksheets and supporting documents for your records.

E Geographic Boundaries

The geographic boundaries of the LARZ are used to determine whether tax incentives are available to a business in a particular location. Information about the geographic boundaries of the LARZ is available from the individual communities listed below.

For information about the geographic boundaries of the LARZ call:

Compton	(310) 605-5580
Hawthorne	(310) 970-7939
Huntington Park	(213) 582-6161, ext. 258
Inglewood	(310) 412-5290
Lawndale	(310) 970-2130
Long Beach	(562) 570-3871
Los Angeles	(213) 485-2956
Lynwood	(310) 603-0220, ext. 253
Pomona	(909) 620-3760
Signal Hill	(562) 989-7342
Unincorporated LA County	(213) 890-7203

If your business is located both within and outside the LARZ, see Part V on page 11 for instructions on how to allocate business income.

F Forms Table

The titles of forms referred to in this booklet are:

Form 100	– California Corporation Franchise or Income Tax Return
Form 100S	– California S Corporation Franchise or Income Tax Return
Form 109	– California Exempt Organization Business Income Tax Return
Form 540	– California Resident Income Tax Return
Form 565	– Partnership Return of Income
Form 568	– Limited Liability Company Return of Income
Schedule CA	– California Adjustments – Residents
Schedule P	– Alternative Minimum Tax and Credit Limitations
Schedule R	– Apportionment and Allocation of Income

Part I Hiring Credits

Construction Hiring Credit

Employers conducting a trade or business inside the LARZ may claim the construction hiring credit for a new employee who is:

- A resident of the LARZ;
Note: If a qualified employee moves out of the LARZ, the employee ceases to be a qualified employee at the time of the move.
- Hired by the employer to perform construction work in the LARZ; and
- Hired on or after 5/1/92.

Construction work is any work performed by a qualified employee directly related to building, demolishing, repairing or renovating a structure located within the LARZ.

The credit available for employees hired on or before December 31, 1997, is equal to a percentage of qualified wages paid to qualified employees during a specified time period as shown in the chart below.

Wages paid	The percentage of qualified wages is:
Beginning of fiscal or calendar year through 12/31/97	50%
After 12/31/97	0%

Hiring Credit

Employers conducting a trade or business inside the LARZ may claim the hiring credit for an employee who:

- Is a resident of the LARZ;
Note: If a qualified employee moves out of the LARZ, the employee ceases to be a qualified employee at the time of the move.
- Was hired on or after 5/1/92;
- Spends at least 90% of work time on activities directly related to the conduct of a trade or business located within the LARZ; and
- Performs at least 50% of the work within the boundaries of the LARZ.

The credit is equal to a percentage of qualified wages paid to qualified employees during a specified time period as shown in the chart below:

For an employee's:	The percentage of qualified wages is:
1st 12 months of employment	50%
2nd 12 months of employment	40%
3rd 12 months of employment	30%
4th 12 months of employment	20%
5th 12 months of employment	10%
After 60 months of employment	0%

Construction Hiring Credit and Hiring Credit

Qualified Wages. Both the construction hiring credit and the hiring credit are based on the lesser of the following:

- The actual hourly rate paid or incurred by the employer for work performed by the employee; or
- **150% of the minimum hourly wage** established by the Industrial Welfare Commission shown in column (c) of the table below.

Where the California minimum wage is higher than the federal minimum wage, the California minimum wage is used for purposes of computing the LARZ hiring credit. The following table represents the applicable minimum wage and 150% of the minimum wage for purposes of computing the LARZ hiring credit:

(a)	(b)	(c)
Wages paid or incurred during the following time periods:	Minimum wage	150% of the minimum wage
October 1, 1996 through February 28, 1997	\$4.75	\$7.12
March 1, 1997 through August 31, 1997	\$5.00	\$7.50
September 1, 1997 through February 28, 1998	\$5.15	\$7.72
March 1, 1998 and after	\$5.75	\$8.62

Note: An employee may qualify under the LARZ construction hiring credit, the LARZ hiring credit and an enterprise zone hiring credit, but only one credit can be claimed. Pick the largest of the hiring credits when more than one applies.

Record Keeping. For each qualified employee, keep a schedule for the first 60 months (5 years) of employment showing:

- Employee name;
- Date employee was hired;
- Number of hours employee worked for each month of employment;
- Lesser of the hourly rate of pay for each month of employment or 150% of the minimum wage;
- Total qualified wages per month for each month of employment; and
- Location of employee's job site and duties performed.

Example:

Gregory Doe hired January 1, 1997.

Month(s)	Hours per Month	Hourly Rate	Qualified Wages per Month
1	175	\$7.00	\$1,225.00
2	170	7.12	1,210.40
3-8	172	7.50	1,290.00
9	170	7.72	1,312.40

Gregory's hourly rate for Month 1 was \$7.00. At the beginning of Month 2, his hourly rate increased to \$8.00. The hourly rate which qualifies for the credit is limited to 150% of the minimum wage (\$7.12 through February 28, 1997, \$7.50 from March 1, 1997 through August 31, 1997, and \$7.72 on or after September 1, 1997).

Credit Limitations

- The amount of hiring credit claimed may not exceed the amount of tax on LARZ business income in any year. Use Worksheet VII on FTB 3806, Side 2, to compute the credit limitation.
- Any unused credit may be carried over and applied against the tax imposed on LARZ business income for as long as the LARZ is in existence or 15 years if longer.
- Businesses must reduce any deduction for wages by the amount of this credit.
- S corporations are limited to only 1/3 of the credit amount otherwise allowable, and there is no carry forward of the disallowed 2/3.
- S corporations must reduce their wage deduction by 1/3 of the amount on Worksheet I, Section A, line 5 and Worksheet I, Section B, line 6. Make the wage deduction adjustment on Form 100S, line 7. In addition, S corporations must add the entire amount of the credit on Schedule K (100S), line 1, column (c).

Example: In 1997, an S corporation qualified for a \$3,000 LARZ hiring credit. The amount of credit that the S corporation can claim is 1/3 of the credit, in this case \$1,000. The S corporation must reduce its wage deduction by \$1,000 (\$3,000 x 1/3). On Schedule K (100S), line 1, column (c), the S corporation would add \$3,000 to the S corporation's ordinary income or loss to reflect the credit passed through to the shareholder(s).

For additional information about the treatment of credits for S corporations, see Part VII on page 17.

Areas Removed From the LARZ. Employers conducting a trade or business in an area removed from the LARZ cannot claim these credits for wages paid during taxable or income years beginning on or after January 1, 1996, (the date the TCA removed the area from the LARZ). However, credits are available for qualified wages paid or incurred with respect to qualified employees hired prior to January 1, 1996, if all provisions of the credit are otherwise satisfied. Credit carryovers from taxable or income years beginning prior to January 1, 1996, may continue to be used.

Instructions for Worksheet I — Hiring Credits & Recapture

Section A — Construction Hiring Credit Computation

Line 1, column (a) – Enter the name of each qualified employee hired after December 31, 1993 and on or before December 31, 1997.

Line 1, column (b) – Enter the qualified wages paid to employees for the current taxable or income year up to December 31, 1997.

Line 2, column (b) – Add the amounts of qualified wages.

Line 4 – The following credits reduce the Construction Hiring Credit in the taxable or income year these credits are accrued. Use the following worksheet to determine the amount to enter on this line.

Credit	Amount
1 LARZ General Hiring Credit	1 _____
2 Federal Work Opportunity Tax Credit (as in effect January 1, 1997, in IRC Section 51) for individuals hired before October 1, 1997)	2 _____
3 Total: Add line 1 and line 2 above. Enter on Worksheet I, Section A, line 4	3 _____

Note: You cannot take the LARZ Construction Hiring Credit and any other hiring credit for the same qualified wages paid or incurred for tax years beginning on or after January 1, 1997.

Section B – Hiring Credit Computation

Line 1, column (a) – Enter the name of each qualified employee.

Line 1, column (b) through column (f) – Enter the qualified wages paid or incurred during the taxable or income year to each qualified employee in the appropriate column.

Line 2, column (b) through column (f) – Add the amounts in each column.

Line 5 – The following credits reduce the Hiring Credit in the taxable or income year these credits are accrued. Use the following worksheet to determine the amount to enter on this line.

Credit	Amount
1 Enterprise Zone Hiring Credit	1 _____
2 LARZ Construction Hiring Credit	2 _____
3 Federal Work Opportunity Tax Credit (as in effect January 1, 1997, in IRC Section 51) for individuals hired before October 1, 1997)	3 _____
4 Total : Add line 1, line 2 and line 3 above. Enter on Worksheet I, Section B, line 5.	4 _____

Section C — Recapture of the Construction Hiring Credit and Hiring Credit

The employer must recapture the amount of credit attributable to an employee's wages if the employer terminates the employee at any time during the longer of:

- The first 270 days of employment (whether or not consecutive); or
- 90 days of employment plus 270 calendar days.

A day of employment means any day for which the employee receives wage compensation (including a paid sick day, holiday or vacation).

The employer must add to the current year's tax the recaptured amount of credit claimed in the year of termination and all prior years in which the credit was claimed for the terminated employee.

Note: The credit recapture does not apply if the termination of employment was:

- Voluntary on the part of the employee;
- In response to misconduct of the employee as determined by the applicable employment compensation provisions;
- Caused by the employee becoming disabled, (unless the employee was able to return to work and the employer did not offer to re-employ the individual);

- Carried out so that other qualified individuals could be hired, creating a net increase in the number of qualified employees and their hours worked;
- Due to a contractual agreement (applies only to the LARZ construction hiring credit); or
- Caused by a substantial reduction in the trade or business operations of the employer.

Line 1, column (a) – Enter the name of the terminated employee.

Line 1, column (b) and column (c) – Enter the amount of credit recapture for each employee. If the construction hiring credit (Section A) was claimed, enter the amount in column (b). If the hiring credit (Section B) was claimed, enter the amount in column (c).

Line 2 – Add the amounts in column (b) and column (c). Enter the total from line 2, column (b) on form FTB 3806, Side 1, line 6. Enter the total from line 2, column (c) on form FTB 3806, Side 1, line 7.

Include the amount of hiring credit recapture on your California tax return or form as follows:

- Schedule J (100);
- Schedule J (100S) and Schedule K-1 (100S), line 23;
- Schedule K (109);
- Form 540, line 36;.
- Form 541, line 21b and Schedule K-1 (541), line 11e;
- Schedule K (565), line 22 and Schedule K-1 (565), line 22; or
- Schedule K (568), line 22 and Schedule K-1 (568), line 22.

Indicate that you included the hiring credit recapture on your tax return by writing "FTB 3806" in the space provided on the schedule or form.

Partnerships and limited liability companies (LLCs) taxed as partnerships must identify the recapture amounts for their partners and members on Schedule K-1 (565 or 568).

S corporation shareholders must recapture the portion of credit that they previously claimed, based on the terminated employee's wages. S corporations must also identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Schedule J (100S).

Section B Hiring Credit ComputationSection C Recapture of the Construction Hiring Credit and Hiring Credit

(a) Terminated Employee's Name		(b) Construction Hiring Credit Recapture	(c) Hiring Credit Recapture
1			
2	Total recapture amounts. Add the amounts in column (b) and column (c). See instructions on page 4	2	

Part II Sales or Use Tax Credit

Businesses may elect to claim a credit equal to the sales or use tax paid or incurred for qualified property purchased during the taxable or income year.

Qualified Property. Types of property that qualify for this credit are:

- Building materials used to replace or repair the business's building and fixtures within the boundaries of the LARZ; or
- Machinery or equipment (excluding inventory) to be used by the business **exclusively** within the boundaries of the LARZ.

Leased Property

The sales tax amount on qualified property being purchased using a financial (conditional sales) contract qualifies for the sales or use tax credit.

To determine whether the lease qualifies as a purchase rather than a true lease, see Revenue Ruling 55-540, 1955-2 C.B. 39 and FTB Legal Ruling 94-2, March 23, 1994.

Credit Limitations:

- The amount of the sales or use tax credit claimed may not exceed the amount of tax on LARZ business income in any year. Use Worksheet VII on Side 2 of form FTB 3806 to compute the credit limitation.
- S corporations are limited to only 1/3 of the credit amount otherwise allowable, and there is no carryforward of the disallowed 2/3.
- Any unused credit may be carried over and applied against the tax imposed on LARZ business income as long as the LARZ is in existence or 15 years if longer.
- In the case where an item of property qualifies the business to take the LARZ sales or use tax credit as well as any other credit (e.g., the enterprise zone sales or use tax credit, the LAMBRA sales or use tax credit or the manufacturers' investment credit), the business may claim only one credit.

Areas Removed From the LARZ. Taxpayers conducting a trade or business in an area removed from the LARZ cannot claim the credit for sales or use tax paid or incurred during taxable or income years beginning on or after January 1, 1996, (the date the TCA removed the area from the LARZ). However, credit carryovers from taxable or income years beginning prior to January 1, 1996, may continue to be used.

Depreciation. To calculate California depreciation, the business must make an adjustment to

reduce the cost basis of the qualified property by any sales or use tax paid or incurred on qualified property for which the credit is taken.

To compute the difference between California and federal depreciation use the following forms:

- Form 100 filers: FTB 3885, Corporation Depreciation and Amortization;
- Form 100S filers: Schedule B (100S), S Corporation Depreciation and Amortization;
- Form 109 filers: Schedule J (109), Depreciation or FTB 3885F, Depreciation and Amortization;
- Form 540 filers: FTB 3885A, Depreciation and Amortization;
- Form 541 filers: FTB 3885F, Depreciation and Amortization;
- Form 565 Filers: FTB 3885P, Depreciation and Amortization;
- Form 568 filers: FTB 3885L, Depreciation and Amortization.

Record Keeping. In order to support the sales or use tax credit claimed, keep all records that document the purchase of the machinery, such as the sales receipt and proof of payment. Additionally, keep all records that identify or describe:

- The machinery purchased (such as serial numbers, etc.);
- The amount of sales or use tax paid on its purchase;
- The location where it is used; and
- If purchased from a manufacturer located outside California, records to substantiate that machinery of comparable quality and price was not available for purchase in California.

Instructions for Worksheet II — Sales or Use Tax Credit & Recapture

Section A — Credit Computation

Line 1, column (a) – List the items of qualified property purchased during the taxable or income year. For each item, include the location (street address and city) where it is used.

Line 1, column (b) – Enter the cost of the qualified property listed in column (a).

Line 1, column (c) – Enter the amount of sales or use tax paid or incurred on the qualified property listed in column (a).

Section B — Credit Recapture

The full amount of the credit must be recaptured (added back to the tax liability) in the year of disposition or nonuse if the property is disposed of or no longer in use in the LARZ before the close of the second taxable or income year after the property was placed in service.

In addition, S corporation shareholders must recapture the portion of credit that they previously claimed. S corporations must also identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Form 100S, Schedule J.

Line 1, column (a) – Enter a description of the property.

Line 1, column (b) – Enter the amount of the sales or use tax credit that must be recaptured.

Line 2 – Add the amounts in column (b). Enter the total here, on form FTB 3806, Side 1, line 8, and on your California tax return or form as follows:

- Schedule J (100);
- Schedule J (100S) and Schedule K-1 (100S), line 23;
- Schedule K (109);
- Form 540, line 36;
- Form 541, line 21b and Schedule K-1 (541), line 11e;
- Schedule K (565), line 22 and Schedule K-1 (565), line 22; or
- Schedule K (568), line 22 and Schedule K-1 (568), line 22.

Indicate that you included the sales or use tax recapture on the tax return by writing "FTB 3806" in the space provided on the schedule or form.

S corporations and their shareholders must recapture the portion of credit that was previously claimed. S corporations must also identify the recapture amount for shareholders on Schedule K-1 (100S). This amount will differ from the amount recaptured by the S corporation on Schedule J (100S). Partnerships and LLCs taxed as partnerships should also identify the recapture amount for partners and members on Schedule K-1 (565 and 568).

Section A Credit Computation

(a) Property Description/Location		(b) Cost	(c) Sales or Use Tax
1 _____			

2 Add the amounts in column (b) and column (c). Enter the total from column (c) here and on Worksheet VII, line 10, line 13 or line 16, column (b)		2	

Section B Credit Recapture

(a) Property Description/Location	(b) Recapture Amount
1 _____	

2 Total recapture amount. Add the amounts in column (b). Enter here and on FTB 3806, Side 1, line 8. See instructions for where to report on your California tax return	2

Part III Business Expense Deduction

LARZ businesses may elect to treat the cost of qualified property as a business expense deduction rather than a capital expense. For the year the property is placed in service, the business may deduct the cost in that year rather than depreciate it over several years.

Qualified property is IRC Section 1245 property acquired by purchase and placed in service on or after September 1, 1992 and used exclusively in a trade or business within the LARZ. Qualified property includes, but is not limited to, tangible personal property (excluding buildings and inventory). Most equipment and furnishings purchased for exclusive use within the LARZ qualifies for the deduction.

If the expense election is made, the business must treat the cost of qualified property as a business expense in the year the property is first placed in service. However, this election is not allowed if the property was:

- Transferred between members of an affiliated group;
- Acquired as a gift or inherited;
- Traded for other property;
- Received from a personal or business relation as defined in IRC Sections 267 and 707; or
- Described in IRC Section 168(f).

Limitations: If you elect to expense qualified property, you may not claim the manufacturers' investment credit for that property. If you elect to expense qualified property, you may not claim the additional first-year depreciation or IRC Section 179 for the same property.

Depreciation. The basis of the property (for depreciation purposes) must be reduced by the

amount allowed as a LARZ business expense deduction.

Election. The LARZ business expense deduction must be claimed by making an election on the original return filed, and thus cannot be claimed on an amended return. Such an election cannot be revoked without the written consent of the FTB.

Note: Estates or trusts are not allowed to claim the business expense deduction.

Instructions for Worksheet III — Business Expense Deduction & Recapture

Section A — Business Expense Deduction-Computation

Line 1, column (a) — Enter a description of the property and the location (street address and city) of its use.

Line 1, column (b) — Enter the cost of the qualified property listed in column (a).

Line 2 — Add the amounts in column (b). Enter the total here, on form FTB 3806, Side 1, line 2, and on your California tax return or form as follows:

- Form 100, line 14;
- Form 100S, line 12, Schedule K (100S), line 8 and Schedule K-1 (100S), line 8;
- Form 109, Side 2, Part II, line 24;
- Form 540, Schedule CA, column B, on the applicable line for your business activity;
- Schedule K (565), line 9 and Schedule K-1 (565), line 9; or
- Schedule K (568), line 9 and Schedule K-1 (568), line 9.

Note: If filing Form 540, indicate that you are claiming the business expense deduction by writing "FTB 3806" below the dotted line to the left of Form 540, line 14.

Section B — Deduction Recapture

The deduction is subject to recapture (added back to income) if, before the close of the second taxable or income year after the property was placed in service, the property is sold, disposed, or no longer used exclusively in the LARZ. In that case, add to current year income the amount previously deducted for that property.

Line 1, column (a) — Enter a description of the property.

Line 1, column (b) — Enter the amount of the business expense deduction claimed for the property that must be recaptured.

Line 2 — Add the amounts in column (b). Enter the total here, on form FTB 3806, Side 1, line 9, and on your California tax return or form as follows:

- Form 100, line 14, as a **negative** amount;
- Form 100S, line 12, as a **negative** amount, Schedule K (100S), line 6 and Schedule K-1 (100S), line 6;
- Form 109, Side 2, Part I, line 12;
- Form 540, Schedule CA, column C, on the applicable line for your business activity;
- Schedule K (565), line 7 and Schedule K-1 (565), line 7; or
- Schedule K (568), line 7 and Schedule K-1 (568), line 7.

Note: If filing Form 540, indicate that you are recapturing the business expense deduction by writing "FTB 3806" below the dotted line to the left of Form 540, line 16.

Section A Deduction Computation

(a) Property Description/Location		(b) Cost
1		
2	Total. Add the amounts in column (b). This is the amount deductible as a business expense. Enter here and on form FTB 3806, Side 1, line 2. See instructions for where to report on your California tax return.	2

Section B Deduction Recapture

(a) Property Description/Location		(b) Recapture Amount
1		
2	Total recapture amount. Add the amounts in column (b). Enter here and on form FTB 3806, Side 1, line 9. See instructions for where to report on your California tax return	2

Part IV Net Interest Deduction for Lenders

A deduction from income is allowed for the amount of net interest received from loans made to a trade or business located within the LARZ.

Net interest is defined as the amount of interest received, less any direct expenses incurred in making the loan. Examples of direct expenses include, but are not limited to:

- Commissions paid to a loan representative;
- Costs incurred in funding the loan; and
- Other costs of the loan.

Types of loans that qualify for this deduction include business loans, mortgages and loans from noncommercial sources. The following requirements must be met to qualify for the deduction:

- The loan must be made to a trade or business located solely within the LARZ;
- The money lent must be used strictly for the borrower's business activities within the LARZ;

- The lender may not have equity or other ownership interest in the borrower's trade or business; and
- The loan must be made on or after May 1, 1992.

Example: You lend \$5,000 to a LARZ business that meets the requirements listed above. You receive \$550 in interest and incur \$300 in expenses directly related to the loan. You may deduct \$250 (\$550 – \$300) of net interest from your taxable income.

Record Keeping. You should maintain records for each loan showing:

- The identity and location of the trade or business to which you lent the money;
- The amount of the loan, interest received and any direct expenses associated with the loan; and
- The use of the loan.

Instructions for Worksheet IV — Net Interest Deduction for Lenders

Line 1, column (e) – Enter the direct expenses incurred in making the loan. Examples of direct expenses include:

- Commissions paid to a loan representative;
- Costs incurred in funding the loan; and
- Other costs of the loan.

Line 2 – Add the amounts in column (f). Enter the total here, on form FTB 3806, Side 1, line 3, and on your California tax return or form as follows:

- Form 100, line 14;
- Form 100S, line 12, Schedule K (100S), line 10 and Schedule K-1 (100S), line 10;
- Form 109, Side 2, Part II, line 24;
- Form 540, Schedule CA, column B, on line 8 or the applicable line for your business activity;
- Form 541, line 15a;
- Schedule K (565), line 11 and Schedule K-1 (565), line 11; or
- Schedule K (568), line 11 and Schedule K-1 (568), line 11.

Worksheet IV Net Interest Deduction for Lenders — Los Angeles Revitalization Zone

	(a) Name and Location of Business to Which Loan was Made	(b) Date of Loan	(c) Amount of Loan	(d) Interest Received	(e) Direct Expenses Incurred	(f) Net Interest (col. (d) minus col. (e))
1						
2	Total. Add the amounts in column (f). Enter here and on form FTB 3806, Side 1, line 3. See instructions above for where to report this amount on your California tax return					2

Part V Doing Business Totally Within or Within and Outside the Los Angeles Revitalization Zone

Section A — Income Apportionment

The LARZ tax incentives are limited to the tax on business income attributable to operations within the zone. If the business is located totally within or both within and outside of the LARZ, the portion of total business operations that are attributable to the LARZ must be determined.

Use Worksheet V, Section A, Apportionment — Los Angeles Revitalization Zone, to determine the percentage of zone business income to total income. This percentage determines the amount of the tax incentives that can be used.

Only California source business income is apportioned to the LARZ. A taxpayer's LARZ business income is its California apportioned business income multiplied by the specific LARZ apportionment percentage.

The LARZ property and payroll factors used in the determination of apportionable business income include only the taxpayer's California amounts in the denominator.

Section B — Loss Apportionment

Use Worksheet V, Section B, Loss Apportionment, to determine your net operating loss apportioned to the LARZ. A taxpayer's LARZ net operating loss is its net business operating loss from all sources multiplied by the specific LARZ apportionment percentage computed in Worksheet V, Section B.

The LARZ property and payroll factors used in the determination of the apportioned business net operating loss include worldwide amounts in the denominator.

Note: If the business operates only within the LARZ, you do not have to complete this worksheet. Enter 100% on line 4.

Business Income vs. Nonbusiness Income

Only business income is apportioned to the LARZ to determine the incentive limitation. LARZ tax incentives are limited to tax on business income attributable to the operations within the LARZ.

Business income is defined as income arising from transactions and activities in the regular course of the trade or business. Business income includes income from tangible and intangible property if the acquisition, management and disposition of the property constitute integral parts of the regular trade or business operations. Non-business income is all income other than business income. Get Title 18 Cal. Code Regulation Section 25120 for further references and examples of nonbusiness income.

For an individual, business income includes but is not limited to California business income or loss from Schedules C, D, D-1 (or Form 4797, Sales of Business Property, if you did not have to file a Schedule D-1), E and F and wages. Be sure to include casualty losses, disaster losses and any business deductions reported on Schedule A as itemized deductions. **Note:** If you elected to carry back part or all of your current year disaster loss under IRC Section 165(i)(1) do not include the amount of the loss that was carried back in your current year business income for the LARZ.

In general, all transactions and activities of the business that are dependent upon or contribute to the operations of the economic enterprise as a whole constitute trade or business.

When a corporation is part of a group of corporations engaged in a unitary business, the income and apportionment factors of the unitary group must be combined. For more information, see Schedule R. See the instructions for ordering forms on page 27.

Pass-through entities must report to their shareholders, beneficiaries, partners and members:

1. The distributive (or pro rata for S corporations) share of the business income apportioned to the LARZ; and
2. The distributive (or pro rata for S corporations) share of the business capital gains apportioned to the LARZ included in item 1.

These items should be reported using the appropriate forms listed below:

- Schedule K-1 (100S), line 23;
- Schedule K-1 (541), line 11e;
- Schedule K-1 (565), line 22; or
- Schedule K-1 (568), line 22.

Property Factor

Property is defined as the average value of all real and tangible personal property owned or rented by the business and used during the taxable or income year to produce business income.

Note: Property is included in the factor if it was available for use during the year.

Property owned by the business is valued at its original cost. Generally, **original cost** is the basis of the property for federal income tax purposes (prior to any federal adjustment) at the time of acquisition by the business, adjusted for subsequent capital additions or improvements and partial dispositions because of sale or exchange. Allowance for depreciation is not considered.

Rented property is valued at 8 times the net annual rental rate. The net annual rental rate for any item of rented property is the total rent paid for the property, less aggregate annual subrental rates paid by subtenants.

The **numerator** of the property factor is the average value of the real and tangible personal property owned or rented by the business and used within the LARZ during the year to produce LARZ business income (column (b)).

When determining **income** apportionment on Worksheet V, Section A, the **denominator** of the property factor is the total average value of all real and tangible personal property owned or rented and used during the year within California (column (a)).

When determining **loss** apportionment on Worksheet V, Section B, the **denominator** of the property factor is the total average value of real and tangible personal property owned or rented and used during the year in all business operation locations.

Payroll Factor

Payroll is defined as the total amount paid to the business's employees for compensation for the production of business income during the taxable or income year.

Compensation means wages, salaries, commissions and any other form of remuneration paid directly to employees for personal services.

Payments made to independent contractors or any other person not properly classified as an employee are excluded.

Compensation Within LARZ

Compensation is considered to be within the LARZ if any one of the following tests is met:

- The employee's services are performed within the geographical boundaries of the LARZ; or
- The employee's services are performed both within and outside the LARZ, but the services performed outside the LARZ are incidental to the employee's service within the LARZ.

Note: Incidental means any temporary or transitory service rendered in connection with an isolated transaction.

Compensation Within and Outside LARZ

If the employee's services are performed both within and outside the LARZ, the employee's compensation will be attributed to the LARZ if:

- The employee's base of operations is within the LARZ; or
- There is no base of operations in any other part of the state in which some part of the service is performed, but the place from which the service is directed or controlled is within the LARZ.

Base of operations is the permanent place from which employees start work and customarily return in order to receive instruction from the taxpayer or communications from their customers or persons; to replenish stock or other material; to repair equipment; or to perform any other functions necessary in the exercise of their trade or profession at some other point or points.

The **numerator** of the payroll factor is the total compensation paid to employees for working within the LARZ during the taxable or income year (column (b)).

When determining **income** apportionment on Worksheet V, Section A, the **denominator** of the payroll factor is the total compensation paid to employees working in California (column (a)).

When determining **loss** apportionment on Worksheet V, Section B, the **denominator** of the payroll factor is the total compensation paid to employees working in all business operation locations.

Example — Computation of LARZ income assigned to each entity operating within the LARZ:

Parent Corporation A has 2 subsidiaries, B and C. Corporations A and B operate within the LARZ. The combined group operates both within and outside California and apportions its income to California using Schedule R. The combined group's business income apportioned to California was \$1,000,000.

Business income apportioned to the LARZ is determined as follows:

	A	B	Combined
Property Factor			
LARZ property	\$2,000,000	\$1,000,000	\$3,000,000
California property			\$5,000,000
Apportionment %	40%	20%	60%
Payroll Factor			
LARZ payroll	\$2,000,000	\$800,000	\$2,800,000
California payroll			\$4,000,000
Apportionment %	50%	20%	70%
Average			
Apportionment % (Property + Payroll Factors) 2	45%	20%	65%
Apportioned			
Business Income			\$1,000,000
LARZ INCOME	\$ 450,000	\$ 200,000	\$ 650,000

Worksheet V Apportionment — Los Angeles Revitalization Zone

Section A Income Apportionment

Use Worksheet V, Section A, if your business has net income from sources both within and outside the LARZ.

	(a) Total Within California	(b) Total Within LARZ	(c) Percent Within LARZ column (b) ÷ column (a)
PROPERTY FACTOR			
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions on page 11. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business: See instructions on page 11			
Total property values.			
PAYROLL FACTOR			
2 Employees' wages, salaries, commissions and other compensation related to business income included in the return.			
Total payroll.			
3 Total percent (sum of the percentages in column (c)) . . .			
4 Average apportionment percentage (1/2 of line 3). Enter here and on form FTB 3806, Side 1, line 5			

Section B Loss Apportionment (For the computation of current year net operating loss only)

Use Worksheet V, Section B, if your business has net losses from sources both within and outside the LARZ.

	(a) Total Within and outside LARZ	(b) Total Within LARZ	(c) Percent Within LARZ column (b) ÷ column (a)
PROPERTY FACTOR			
1 Average yearly value of owned real and tangible personal property used in the business (at original cost). See instructions on page 11. Exclude property not connected with the business and the value of construction in progress.			
Inventory			
Buildings			
Machinery and equipment			
Furniture and fixtures			
Delivery equipment			
Land			
Other tangible assets (attach schedule)			
Rented property used in the business: See instructions on page 11			
Total property values.			
PAYROLL FACTOR			
2 Employees' wages, salaries, commissions and other compensation related to business income included in the return.			
Total payroll.			
3 Total percent (sum of the percentages in column (c)) . . .			
4 Average apportionment percentage (1/2 of line 3). Enter here and on Worksheet VI, Section B, line 4.			

The average apportionment percentage shown on line 4 represents the portion of the taxpayer's total business that is attributable to activities conducted within the LARZ.

Part VI Net Operating Loss (NOL) Computation and Loss Limitations

An NOL generated by a business that operates or invests within the LARZ can be carried forward for 15 years but cannot be carried back. In addition, 100% of the NOL generated in the LARZ can be carried forward.

Note: Financial institutions using bad debt reserve methods may carryover the loss for a maximum of 5 income years.

Limitation. A LARZ NOL deduction can offset only business income attributable to operations within the LARZ.

Election. Businesses must elect and designate the carryover category (general or specific, enterprise zone or LARZ NOL) on the original return for the year of a loss and file form FTB 3806 each year in which an NOL deduction is being taken. The election is **irrevocable**.

Note: If you elect the LARZ NOL deduction, you cannot carry over any other type of NOL from this year.

To determine which type of NOL will provide the greatest benefit, businesses that have both LARZ NOLs and general or specific NOLs or enterprise zone or LAMBRA NOLs or that may qualify for special NOL treatment should complete Worksheet VI and forms or worksheets:

- FTB 3805Z, Enterprise Zone Business Booklet, Worksheet VI (if your business is in more than one designated economic development area);
- FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts;
- FTB 3807, Local Agency Military Base Recovery Area Booklet, Worksheet V; or
- FTB 3805Q, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Corporations.

Alternative Minimum Tax. Businesses claiming a LARZ NOL deduction must determine their NOL for alternative minimum tax purposes. Use Schedule P (100, 540, 540NR or 541) to compute the NOL for alternative minimum tax purposes.

S Corporations. LARZ NOLs incurred prior to becoming an S corporation may not be used against S corporation income. See IRC Section 1371(b).

However, an S corporation is allowed to deduct a LARZ NOL incurred after the "S" election is made. An S corporation may use the NOL as a deduction against income subject to the 1.5% entity-level tax (3.5% for financial institutions). The expenses (and income) giving rise to the

loss are also passed through to the shareholders in the year the loss is incurred.

Taxpayers Operating Within and Outside the LARZ. The loss amount available for carryover for taxpayers operating within and outside the zone is determined by apportioning the total business loss pursuant to the provisions of R&TC Chapter 17, with certain modifications to the apportioning factors. The apportionment factors include the property and payroll factors, and compare LARZ property and payroll to total property and payroll. This apportionment factor calculation is done on Worksheet V, Section B. The loss carryover is deducted against income apportionable by each business to the LARZ in subsequent years. This calculation is done on Worksheet VI, Section C.

Corporations that are members of a unitary group filing a combined report must separately compute the loss carryover for each corporation in the group (R&TC Section 25108) using their individual apportionment factors.

Unlike the NOL treatment on a federal consolidated return, a loss carryover for one member included in a combined report may not be applied to the intrastate apportioned income of another member included in a combined report. For water's-edge purposes, each corporation's NOL carryover is limited to the amount determined by recomputing the income and factors of the original worldwide combined reporting group as if the water's-edge election had been in force for the year of the loss. The NOL carryover may not be increased as a result of the recomputation.

Areas Removed From the LARZ. Taxpayers conducting business activities within an area removed from the LARZ cannot elect the LARZ NOL provisions for taxable or income years beginning on or after January 1, 1996, (the date the TCA removed the area from the LARZ). However, LARZ NOL carryovers from taxable or income years beginning prior to January 1, 1996, may continue to be deducted.

Instructions for Worksheet VI — NOL Computation and Loss Limitations

Individuals and exempt organizations treated as trusts with a current year loss complete Section A. Corporations with a current year loss complete Section B. Individuals and corporations with current year income and a prior year NOL carryover complete Section C.

Section A — Computation of Current Year NOL — Individuals and Exempt Organizations Treated as Trusts

Use this section to compute the LARZ NOL to be carried over to future years by individuals and exempt organizations treated as trusts. Complete Section A **only** if you have a current year loss.

You must complete form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts, before you can compute the allowable LARZ loss.

To compute a LARZ NOL, it is necessary to separate business income and deductions from non-business income and deductions. See Part V, Doing Business Totally Within or Within and Outside the Los Angeles Revitalization Zone, for a complete discussion of business and nonbusiness income.

Use the Income Worksheet on the following page to determine the amount to enter on:

- Worksheet VI, Section A, line 1;
- Worksheet VI, Section C, line 1 and line 6 (Form 540 filers); and
- Worksheet VII, Part I, line 1 and line 3.

Do not include disaster losses in any amounts used in the table.

Wages

Taxpayers with wages from a company located within and outside the LARZ must determine the LARZ wage income by entering the percentage of their time (during the period for which the wages entered on line 1 were earned) that they worked within the LARZ. This percentage must be determined based on their record of time and events such as a travel log or entries in a daily planner.

Multiple Pass-through Entities

If you are a shareholder, partner or member in multiple pass-through entities with businesses located within and outside the LARZ from which you received LARZ incentives see the example below for computing business income in the LARZ.

Pass-through	Trade or Business Income from Schedule K-1 (100S, 541, 565 or 568)	Entity's LARZ Apportionment Percentage	LARZ Apportioned Income
ABC, Inc.	\$40,000	80%	\$32,000
A, B & C	30,000	10%	3,000
ABC, LLC	10,000	50%	5,000
			\$40,000

Business Income

Use business income or loss from Form 1040 Schedules C, C-EZ, E and F, plus California adjustments from Schedule CA (540) for each trade or business. Also include business capital gains and losses from Schedule D and business gains and losses from Schedule D-1.

Income Worksheet — Los Angeles Revitalization Zone
Part I Individual Income and Expense Items

	(a) Amount	(b) % of time providing services in the LARZ	(c) Apportioned amount (a) x (b)
1 Wages			
2 Employee Business Expenses			
3 Subtotal: Enter the total of line 1, column (c) and line 2, column (c) in column (c), this line.			

Part II Pass-through Income or Loss

(a) Name of entity	(b) Distributive or pro-rata share of business income or loss apportioned to the LARZ from Schedule K-1 (100S, 541, 565 or 568) including capital gains and losses
4	
5 Subtotal: Enter the total of line 4, column (b) in column (b), this line	

Part III Taxpayer's Trade or Business

	(a) Business income	(b) Apportionment % for the LARZ	(c) Apportioned income or loss (a) x (b)
6 Schedule C or C-EZ.			
7 Schedule E (Rentals)			
8 Schedule F.			
9 Subtotal: Enter the total of line 6, column (c), line 7, column (c) and line 8, column (c) in column (c), this line			

	(a) Business gain or loss	(b) Apportionment % for the LARZ	(c) Apportioned income or loss (a) x (b)
10 Form 540, Schedule D			
11 Form 540, Schedule D-1			
12 Subtotal: Enter the total of line 10, column (c) and line 11, column (c) in column (c), this line			

	(a) Amount	(b) Apportionment % for the LARZ	(c) Apportioned income or loss (a) x (b)
13 Other business income or loss			
14 Subtotal: Enter the total of other business income or loss item(s) from line 13, column (c) in column (c), this line			
15 Total: Enter the total of column (c) for line 3, line 5, line 9, line 12 and line 14 in column (c), this line			

If the result on the Income Worksheet, line 15, column (c) is a negative amount, enter this amount on:

- Worksheet VI, Section A, line 1;

If the result on the Income Worksheet, line 15, column (c) is a positive amount and:

- You have NOL carryovers, enter the amount on Worksheet VI, Section C, line 1 and line 6 (skip line 2 through line 5). Also enter the amount from the Income Worksheet, line 15, column (c) on Worksheet VII, Part I, line 1 and line 3 (skip line 2) if you have LARZ credits.

- You do not have NOL carryovers but you do have credits or credit carryovers, enter the amount on Worksheet VII, Part I, line 1 and line 3 (skip line 2).

Section B — Computation of Current Year NOL — Corporations

Use this section to compute the LARZ NOL to be carried over to future years for corporations. Complete Section B **only** if the corporation has a current year loss.

You must complete form FTB 3805Q, Net Operating Loss (NOL) Computation and Disaster Loss Limitations — Corporations, before you can compute the allowable LARZ loss.

Caution: For those taxpayers who do business within and outside the LARZ, the apportionment formula used to compute the LARZ NOL is different from the apportionment formula used to compute LARZ income. If you have a current NOL, use Worksheet V, Section B.

Section C — Computation of NOL Carryover and Carryover Limitations — Individuals, Exempt Organizations Treated as Trusts and Corporations

Use this section to compute the LARZ NOL deduction for individuals, exempt organizations treated as trusts and corporations. The NOL deduction is used to reduce current year income from the LARZ.

Line 1 — See Part V, Doing Business Totally Within or Within and Outside the Los Angeles

Revitalization Zone, for a discussion of business vs. nonbusiness income. **Note to Form 540 filers:** Be sure to include on line 1, the amount of deduction for prior year disaster losses reported on Schedule CA (540) for purposes of this worksheet section.

Line 2 — In modifying your income, deduct your capital losses only up to your capital gains. Enter as a positive number, any net capital losses included in line 1.

Line 3 — Corporations must reduce income by the disaster loss deduction and the deduction for excess net passive income.

Line 6 — This is your modified taxable income. Reduce this amount by your LARZ NOL deduction. The LARZ NOL deduction may not be larger than your modified taxable income (MTI). If your MTI is a loss in the current year or if it limits the amount of NOL you may use this year, you must carry over the NOL to future years.

Line 7 — Enter the amount from line 6. If this amount is zero or negative, transfer the amount from line 8 through line 12 column (b) to column (e). Go to line 13.

Line 8 through Line 12 — Enter the amounts as positive numbers.

In column (c), enter the smaller of the amount in column (b) or the amount in column (d) from the previous line.

In column (d), enter the result of subtracting column (c) from the balance on the previous line in column (d).

In column (e), enter the result of subtracting the amount in column (c) from the amount in column (b), as applicable.

Example:

(b) Carry-over from prior years	(c) Amount used this year	(d) Balance available to offset losses	(e) Carry-over
		\$5,000	
\$ 500	\$ 500	4,500	\$ 0
6,000	4,500	0	1,500

Line 13 — Enter the amount of your current year NOL. Individuals and exempt organizations treated as trusts: enter the amount from Section A, line 7. Corporations: enter the amount from Section B, line 7.

The LARZ NOL deduction for 1997 is the total of column (c). Enter this amount on your California tax return or form as follows:

- Form 100, line 20;
- Form 100S, line 19;
- Form 109, line 3 or line 11; or
- Schedule CA (540), line 21e, column B.

Worksheet VI Net Operating Loss (NOL) — Los Angeles Revitalization Zone

Section A Computation of Current Year NOL — Individuals and Exempt Organizations Treated as Trusts

1	Net trade or business loss from all sources. Individuals: Enter the total from the Income Worksheet, line 15, column (c) (page 14) as a positive number. For purposes of this worksheet section, do not include any 1997 disaster losses or disaster loss carryovers in line 1. See definition of business income on page 11. Exempt Organizations Treated as Trusts: Enter the amount from Form 109, line 10	1
2	Total business capital losses included in line 1. Enter as a positive number	2
3	Total business capital gains included in line 1	3
4	If line 2 is greater than line 3, enter the difference as a positive number; otherwise enter -0-	4
5	Subtract line 4 from line 1. If the result is zero or less, do not complete the rest of this section. You do not have a current year NOL from a LARZ	5
6	Enter the amount from form FTB 3805V, Part I, Section A, line 20	6
7	Enter the smaller of line 5 or line 6 here and in Section C, line 13, column (e)	7
This is the LARZ NOL carryover from 1997 to 1998		

Section B Computation of Current Year NOL — Corporations

Note: If you have both a LARZ NOL and a prior year general NOL, see instructions on page 13.

During the year the corporation incurred the NOL, the corporation was a: ☐ C Corporation ☐ S Corporation ☐ Exempt Corporation

1	Net loss for state purposes from Form 100, line 17; Form 100S, combined amounts of line 15 and line 17; or Form 109, line 1. Apportioning corporations enter the amount from Schedule R, line 13b for the corporation doing business in the zone. Enter as a positive number.	1
2	a 1997 disaster relief loss included in line 1. Enter as a positive number	2a
	b Nonbusiness income included in line 1. Enter as a negative number.	2b
	c Nonbusiness losses included in line 1. Enter as a positive number	2c
	d Combine line 2a through line 2c	2d
3	Subtract line 2d from line 1. If zero or less, do not complete the rest of this section; the corporation does not have a current year NOL	3
4	Enter the average apportionment percentage from Worksheet V, Section B, line 4	4
5	Multiply line 3 by line 4	5
6	Enter the amount from form FTB 3805Q, Part I, line 3	6
7	Enter the smaller of line 5 or line 6 here and in Section C, line 13, column (e)	7
This is the LARZ NOL carryover from 1997 to 1998.		

Section C NOL Carryover and Carryover Limitations — Individuals, Exempt Organizations Treated as Trusts and Corporations.

1	Enter the amount from Form 100, line 17; Form 100S, combined amounts of line 15 and line 17; or Form 109, line 1 or line 10. Form 540 filers, enter the total from the Income Worksheet, line 15, column (c) (page 14) on line 1 and line 6 (skip line 2 through line 5). See instructions. Apportioning corporations, enter the amount from Schedule R, line 13b for the corporation doing business in the zone	1		
2	a Form 100, 100S, and 109 filers: Enter any nonbusiness income included in line 1 as a negative number. Form 540 filers leave blank.	2a		
	b Form 100, 100S, and 109 filers: Enter any nonbusiness losses included in line 1 as a positive number. Form 540 filers leave blank	2b		
	c Combine line 2a through line 2b.	2c		
3	Form 100 Filers: Enter the amount from Form 100, line 21. Form 100S Filers: Enter the total of the amounts on Form 100S, line 17 and line 20. Form 540 Filers and Form 109 Filers: Enter -0-. Enter this amount as a negative number	3		
4	Combine line 1, line 2c and line 3.	4		
5	Enter the average apportionment percentage from Worksheet V, Section A, line 4. . . .	5		
6	Modified taxable income. Multiply line 4 by line 5	6		

(a) Description	(b) Carryover from prior years	(c) Amount deducted this year	(d) Balance available to offset losses	(e) NOL Carryover
7 Modified taxable income from line 6				
8 LARZ NOL carryover beginning in 1992				
9 LARZ NOL carryover beginning in 1993				
10 LARZ NOL carryover beginning in 1994				
11 LARZ NOL carryover beginning in 1995				
12 LARZ NOL carryover beginning in 1996				
13 LARZ NOL carryover beginning in 1997				
14 Add the amounts in column (b) through column (e). Enter the totals from column (b), column (c) and column (e) on form FTB 3806, Side 1, line 4a, line 4b and line 4c respectively .				

Part VII Computation of Credit Limitations

Credit Limitations. The amount of credit you can claim on your California tax return is limited by the amount of tax attributable to the LARZ business income. Use Worksheet VII on form FTB 3806, Side 2 to compute this limitation.

Credits you are otherwise eligible to claim may be limited. Do not apply credits against the minimum franchise tax (corporations, limited partnerships, limited liability partnerships, LLCs and S corporations), the alternative minimum tax (corporations, individuals and fiduciaries), the built-in gains tax (S corporations) or the net passive income tax (S corporations). Refer to the credit instructions in your tax booklet for more information.

S Corporations and the Application of LARZ Credits.

An S corporation may use its LARZ credits to reduce LARZ tax both at the corporate and shareholder levels.

An S corporation may use 1/3 of the LARZ credit to reduce the tax on the S corporation's LARZ income. In addition, S corporation shareholders may claim their distributive share of the entire amount of the LARZ credits calculated under the Personal Income Tax Law.

Example: In 1997, an S corporation qualified for a \$3,000 LARZ hiring credit. The S corporation will be able to use 1/3 of the credit ($\$3,000 \times 1/3 = \$1,000$), to offset the tax on the corporation's LARZ income.

The S corporation will also pass through a \$3,000 credit to its shareholders to offset their individual tax, computed under the Personal Income Tax Law, on LARZ income.

S corporations must attach form FTB 3806 to Form 100S, California S Corporation Franchise or Income Tax Return, to claim the tax credits. If form FTB 3806 is not attached to the return, the credits may be disallowed.

Shareholders must attach Schedule K-1 (100S), Shareholder's Share of Income, Deductions, Credits, etc., to their individual tax return.

Carryover. If the amount of credit available this year exceeds your tax, you may carry over any excess credit to future years until the LARZ ceases to exist or 15 years, if longer. When the LARZ ceases to exist, the tax must continue to be computed on income as if the LARZ were still in existence.

For S corporations, the amount of the 1/3 credit that is in excess of the 1.5% entity-level tax (3.5% for financial S corporations) in the current year may also be carried forward and used in future years to offset the 1.5% entity-level tax (3.5% for financial S corporations). See the instructions for Worksheet VII, Part III for more information.

Credit Code Number. To claim the hiring and sales or use tax credits on your return you must use credit code number **159**. Using the incorrect code number may cause a delay in allowing the credit.

Instructions for Worksheet VII — Computation of Credits

Note: Worksheet VII is on Side 2 of form FTB 3806.

Partnerships and LLCs taxed as partnerships do not complete Worksheet VII. The partners and members of these types of entities should complete Worksheet VII in order to determine the amount of LARZ credits that they may claim on their California tax returns.

Reporting Requirements of S Corporations, Estates or Trusts, Partnerships and LLCs Taxed as Partnerships.

- Report to shareholders, beneficiaries, partners and members, the distributive or pro-rata share of business capital gains and losses apportioned to the zone; and
- Separately state any distributive share of business capital gains and losses apportioned to the zone included in the amount above.

S corporations: Complete only Part III of this worksheet if your entity-level tax before credits is more than the minimum franchise tax.

Corporations and S corporations subject to the minimum tax only: Complete only Part IV of this worksheet.

All others: Complete Part I and Part II of this worksheet.

Part I

Note: For filers with NOL or NOL carryovers:

- Complete Worksheet VI first, if you have a current year NOL or an NOL carryover.
- Then complete Worksheet VII if you have any LARZ credits.

If you do not have a current NOL or any NOL carryovers:

- Individual filers: Go to the Income Worksheet in the instructions for Worksheet VI, Section A. Follow the instructions there. Enter the amount from the Income Worksheet, line 15, column (c) on Worksheet VII, Part I, line 1 and line 3 (skip line 2).
- Corporations: Follow the instructions for line 1 below.

Line 1 – See page 11 for a definition of trade or business income. Enter all trade or business income.

Line 2 – If your business is located entirely within the zone, enter 1.

Specifically, this percentage is the apportionment percentage computed by the entity using form FTB 3806, Worksheet V, and represents the percentage of the entity's business attributable to the LARZ.

Line 3 – If the amount on line 3 is negative, you cannot use any incentives to offset the current year tax liability. Enter zero on line 7. Carryover of the unused incentives is allowed as provided. See the specific incentive for further information.

Line 6a – Compute the tax as if the LARZ taxable income represented all of your taxable income.

Example (Determination of LARZ Income for Shareholders, Partners or Members of Pass-through Entities):

Gregory Smith is vice president of ABC, Inc., an S corporation that has two locations: one in the LARZ and one outside the LARZ. Eighty percent (80%) of the S corporation's business is attributable to the LARZ. (Note: This percentage was determined by ABC, Inc. using form FTB 3806, Worksheet V — Apportionment Worksheet, when ABC's California S corporation return (Form 100S) was prepared). Gregory divides his time equally (50%/50%) between the two offices of ABC, Inc.

Mary Smith (Gregory's spouse) works for ABC, Inc. at its office located in the LARZ.

Gregory and Mary Smith have the following 1997 items of California income and expense:

Gregory's salary from ABC, Inc.	\$100,000
Mary's salary from ABC, Inc.	75,000
Interest on savings account	1,000
Dividends	3,000
Schedule K-1(100S) from ABC, Inc.:	
Ordinary income	40,000
LARZ business expense deduction	(5,000)*
Gregory's unreimbursed employee expenses from Schedule A	(2,000)

*The LARZ business expense deduction is a separately stated item on Schedule K-1 (100S), line 8.

The Smith's LARZ income (total amount to be reported on line 3) is computed as follows:

Gregory's LARZ ($\$100,000 \times 50\%$)	\$50,000
Mary's LARZ salary ($\$75,000 \times 100\%$)	75,000
Pass-through ordinary income from ABC, Inc. ($\$40,000 \times 80\%$)	32,000
Gregory's unreimbursed employee business expenses ($2,000 \times 50\%$)	(1,000)
Total LARZ (Worksheet VII, Part I, line 3)	\$151,000

Note: The standard deduction and personal or dependency exemptions are not included in the computation of LARZ income since they are not related to trade or business activities.

Gregory and Mary Smith must compute the tax (to be entered on Worksheet VII, Part I, line 6a) on the total LARZ income of \$151,000 (as if it represents all of their income). Using the tax rate schedule in their tax booklet for filing status married filing joint, the 1997 tax figured on \$151,000 is \$10,819.

Individuals: Use the tax table or tax rate schedule for your filing status in your tax booklet.

Exempt organizations: Use the applicable tax rate in your tax booklet. **Corporations and S corporations:** Use the applicable tax rate.

Line 6b – Corporations and S corporations: If the amount on line 6b is the minimum franchise tax (\$800), you cannot use your LARZ credits this year. You should complete Part IV of the worksheet to figure the amount of credit carryover.

Part II

Use Part II if you are a corporation, individual, estate or trust. Corporations that are subject to paying only the minimum franchise tax go to Part IV.

Line 8A, column (e) – Enter the amount from line 7. This is the amount of limitation based on the tax on LARZ business income.

Line 8A, column (f) – Enter the amount of credit that is used on Schedule P (100, 540, 540NR or 541), column (b). The amount cannot be greater than the amount in column (e) or the amount computed on line 8B, column (d).

Line 8B, column (b) – Enter the amount of the current year credit that was computed on Worksheet I, Section A, line 3.

Line 8B, column (c) – Enter the amount of the total prior year carryover of the credit (this is the amount of credit that was previously figured on Worksheet I, Section A, in the prior year, minus the amount that was allowed to be taken on the prior year return).

Line 8B, column (d) – Add the amount of the current year credit in column (b) and the amount of the total prior year carryover in column (c).

Line 8B, column (e) – Compare the amount of line 8A, column (e) and line 8A, column (f). Enter the smaller amount.

Line 8B, column (g) – Subtract the amount of column (e) from the amount of column (d). Enter the result in column (g). This is the amount of credit that can be carried over to future years.

Note: This carryover includes both the Schedule P (100, 540, 540NR or 541), limitation and the limitation based on LARZ business income.

Line 9A, column (e) – Subtract the amount of line 8B, column (e) from the amount of line 8A, column (e). If the result is zero, your remaining credits are limited and must be carried over to future years. In this case, enter the amounts from line 9B, column (d) and line 10B, column (d) on line 9B and 10B in column (g).

Line 9A, column (f) – Enter the amount of credit that is used on Schedule P (100, 540, 540NR or 541), column (b). The amount cannot be greater than the amount in column (e) or the amount computed on line 9B, column (d).

Line 9B, column (b) – Enter the amount of the current year credit that was computed on Worksheet I, Section B, line 6.

Line 9B, column (c) – Enter the amount of the total prior year carryover of the credit (this is the amount of credit that was previously figured on Worksheet I, Section B, in the prior year, minus the amount that was allowed to be taken on the prior year return).

Line 9B, column (d) – Add the amount of the current year credit in column (b) and the amount of the total prior year carryover in column (c).

Line 9B, column (e) – Compare the amount of line 9A, column (e) and line 9A, column (f). Enter the smaller amount.

Line 9B, column (g) – Subtract the amount of column (e) from the amount of column (d). Enter the result in column (g). This is the amount of credit that can be carried over to future years.

Note: This carryover includes both the Schedule P (100, 540, 540NR or 541) limitation and the limitation based on LARZ income.

Line 10A, column (e) – Subtract the amount of line 9B, column (e) from the amount of line 9A, column (e). If the result is zero, your remaining credit is limited and must be carried over to future years. In this case, enter the amount from line 10B, column (d) in column (g).

Line 10A, column (f) – Enter the amount of credit that is used on Schedule P (100, 540, 540NR or 541), column (b). The amount cannot

be greater than the amount in column (e) or the amount computed on line 10B, column (d).

Line 10B, column (b) – Enter the amount of the current year credit that was computed on Worksheet II, Section A, line 2.

Line 10B, column (c) – Enter the amount of total prior year carryover of the credit (this is the amount of credit that was previously figured on Worksheet II, in the prior year, minus the amount that was allowed to be taken on the prior year return).

Line 10B, column (d) – Add the amount of the current year credit in column (b) and the amount of the total prior year carryover in column (c).

Line 10B, column (e) – Compare the amount of line 10A, column (e) and line 10A, column (f). Enter the smaller amount.

Line 10B, column (g) – Subtract the amount of column (e) from the amount of column (d). Enter the result in column (g). This is the amount of credit that can be carried over to future years.

Note: This carryover includes both the Schedule P (100, 540, 540NR or 541) limitation and the limitation based on LARZ income.

Example: Part II

The ABC Business has \$8,000 of tax. The business has a credit limitation of \$7,000 computed on Worksheet VII, line 7. The business has the following credits:

Construction hiring credit	– \$5,000
General hiring credit	– \$500 and a \$300 carryover
Sales or use tax credit	– \$9,000

Worksheet VII, Part II would be computed as follows:

Part II Limitation of Credits for Corporations, Individuals and Estates and Trusts

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit (Add Col. (b) and Col. (c))	(e) Limitation Based on LARZ Business Income	(f) Used on Schedule P (Can never be greater than Col. (d) or Col. (e))	(g) Carryover (Col. (d) Minus Col. (e))
8	Construction Hiring	A			7,000	5,000	
		B	5,000	-0-	5,000		-0-
9	General Hiring	A			2,000	800	
		B	500	300	800		-0-
10	Sales or Use Tax	A			1,200	1,200	
		B	9,000	-0-	9,000		7,800

Part III

Use Part III only if you are an S corporation.

Line 11 through Line 13, column (b) – Enter the credit computed this year from the appropriate worksheet.

Also enter this amount on Form 100S:

- Schedule C, line 5; and,
- Schedule K, line 13.

You may need to adjust your Schedule C to reflect the LARZ tax limitation (Part I, line 7) to your credits after completing this worksheet.

Line 11 through Line 13, column (b) – Enter the amount of current year credits (that were computed on Worksheet I and Worksheet II) in column (b) for line 11, line 12 and line 13, as applicable.

Line 11 through Line 13, column (c) – Multiply the amounts on line 11, column (b), line 12, column (b) and line 13, column (b) each by 1/3. Enter the result in column (c). The amounts in column (c) are the maximum amounts of the current year credits that may be used by the

S corporation to offset its 1.5% entity-level tax (3.5% for financial S corporations).

Line 11 through Line 13, column (d) – Enter the amount of the total prior year credit carryover on line 11, column (d); line 12, column (d); and line 13, column (d), as applicable. This is the amount of credit that was previously figured on the prior year's Worksheet I or Worksheet II, minus the amount that was allowed to be taken on the prior year return.

Line 11 through Line 13, column (e) – Add the amounts of the current year credits in column (c) for line 11, line 12 and line 13 and the amount of total prior year carryovers in column (d) for line 11, line 12 and line 13, as applicable.

Line 11 through Line 13, column (f) – Enter the amount of credit that was used by the S corporation in the current year to offset its 1.5% entity-level tax (3.5% for financial S corporations) in column (f) for line 11, line 12 and line 13, as applicable.

Line 11 through Line 13, column (g) – Subtract the amounts in column (f) for each line from the amounts in column (e) for each line. These are

the amount of credits that can be carried over to future years and used by the S corporation.

Part IV

Use Part IV if you are a corporation or S corporation subject to paying only the minimum franchise tax.

Line 14 through Line 16, column (b) – Enter the amount of current year credits (that were computed on Worksheet I and Worksheet II) in column (b) for line 14, line 15 and line 16, as applicable. **S corporations** may only enter 1/3 of the amounts from Worksheet I and II.

Line 14 through Line 16, column (c) – Enter the amount of the total prior year carryover of the credit in column (c) for line 14, line 15 and line 16, as applicable. (These are the amounts of credits that were previously figured on Worksheet I and Worksheet II in the prior year, minus the amount that was allowed to be taken on the prior year return).

Line 14 through Line 16, column (d) – Add the amounts in column (b) and column (c) for line 14, line 15 and line 16. These are the amount of credits that can be carried over to future years.

Principal Business Activity Code Chart

Agriculture, Forestry and Fishing

Code

- 0400 Agricultural production
- 0600 Agricultural services (except veterinarians), forestry, fishing, hunting and trapping

Mining

Metal mining

- 1010 Iron ores
- 1070 Copper, lead and zinc, gold and silver ores
- 1098 Other metal mining
- 1150 Coal mining

Oil and gas extraction

- 1330 Crude petroleum, natural gas and natural gas liquids
- 1380 Oil and gas field services

Nonmetallic minerals, except fuels

- 1430 Dimension, crushed and broken stone; sand and gravel
- 1498 Other nonmetallic minerals, except fuels

Construction

General building contractors and operative builders

- 1510 General building contractors
- 1531 Operative builders

1600 Heavy construction contractors

Special trade contractors

- 1711 Plumbing, heating and air conditioning
- 1731 Electrical work
- 1798 Other special trade contractors

Manufacturing

Food and kindred products

- 2010 Meat products
- 2020 Dairy products
- 2030 Preserved fruits and vegetables
- 2040 Grain mill products
- 2050 Bakery products
- 2060 Sugar and confectionary products
- 2081 Malt liquors and malt
- 2088 Alcoholic beverages, except malt liquors and malt
- 2089 Bottled soft drinks and flavorings
- 2096 Other food and kindred products

2100 Tobacco manufacturers

Textile mill products

- 2228 Weaving mills and textile finishing
- 2250 Knitting mills
- 2298 Other textile mill products

Apparel and other textile products

- 2315 Men's and boy's clothing
- 2345 Women's and children's clothing
- 2388 Other apparel and accessories
- 2390 Miscellaneous fabricated textile products

Lumber and wood products

- 2415 Logging, sawmills and planing mills
- 2430 Millwork, plywood and related products
- 2498 Other wood products, including wood buildings and mobile homes

2500 Furniture and fixtures

Paper and allied products

- 2625 Pulp, paper and board mills
- 2699 Other paper products

Printing and publishing

- 2710 Newspapers
- 2720 Periodicals
- 2735 Books, greeting cards and miscellaneous publishing
- 2799 Commercial and other printing and printing trade services

Chemicals and allied products

Code

- 2815 Industrial chemicals, plastics materials and synthetics
- 2830 Drugs
- 2840 Soap, cleaners and toilet goods
- 2850 Paints and allied products
- 2898 Agricultural and other chemical products

Petroleum refining and related industries (including those integrated with extraction)

- 2910 Petroleum refining (including integrated)
- 2998 Other petroleum and coal products

Rubber and misc. plastics products

- 3050 Rubber products, plastics footwear, hose and belting
- 3070 Misc. plastics products

Leather and leather products

- 3140 Footwear, except rubber
- 3198 Other leather and leather products

Stone, clay and glass products

- 3225 Glass products
- 3240 Cement, hydraulic
- 3270 Concrete, gypsum and plaster products
- 3298 Other nonmetallic mineral products

Primary metal industries

- 3370 Ferrous metal industries; misc. primary metal products
- 3380 Nonferrous metal industries

Fabricated metal products

- 3410 Metal cans and shipping containers
- 3428 Cutlery, hand tools and hardware; screw machine products, bolts and similar products
- 3430 Plumbing and heating, except electric and warm air
- 3440 Fabricated structural metal products
- 3460 Metal forgings and stampings
- 3470 Coating, engraving and allied services

3480 Ordnance and accessories, except vehicles and guided missiles

- 3490 Misc. fabricated metal products

Machinery, except electrical

- 3520 Farm machinery
- 3530 Construction and related machinery
- 3540 Metalworking machinery
- 3550 Special industry machinery
- 3560 General industrial machinery
- 3570 Office, computing and accounting machines
- 3598 Other machinery except electrical

Electrical and electronic equipment

- 3630 Household appliances
- 3665 Radio, television and communication equipment
- 3670 Electronic components and accessories
- 3698 Other electrical equipment

3710 Motor vehicles and equipment

Transportation equipment, except motor vehicles

- 3725 Aircraft, guided missiles and parts
- 3730 Ship and boat building and repairing
- 3798 Other transportation equipment, except motor vehicles

Instruments and related products

- 3815 Scientific instruments and measuring devices; watches and clocks
- 3845 Optical, medical and ophthalmic goods
- 3860 Photographic equipment and supplies

3998 Other manufacturing products

Transportation and Public Utilities

Transportation

Code

- 4000 Railroad transportation
- 4100 Local and interurban passenger transit
- 4200 Trucking and warehousing
- 4400 Water transportation
- 4500 Transportation by air
- 4600 Pipe lines, except natural gas
- 4700 Miscellaneous transportation services

Communication

- 4825 Telephone, telegraph and other communication services
- 4830 Radio and television broadcasting

Electric, gas and sanitary services

- 4910 Electric services
- 4920 Gas production and distribution
- 4930 Combination utility services
- 4990 Water supply and other sanitary services

Wholesale Trade

Durable

- 5008 Machinery, equipment and supplies
- 5010 Motor vehicles and automotive equipment
- 5020 Furniture and home furnishings
- 5030 Lumber and construction materials
- 5040 Sporting, recreational, photographic and hobby goods, toys and supplies
- 5050 Metals and minerals, except petroleum and scrap
- 5060 Electrical goods
- 5070 Hardware, plumbing and heating equipment and supplies
- 5098 Other durable goods

Nondurable

- 5110 Paper and paper products
- 5129 Drugs, drug proprietaries and druggists' sundries
- 5130 Apparel, piece goods and notions
- 5140 Groceries and related products
- 5150 Farm-product raw materials
- 5160 Chemicals and allied products
- 5170 Petroleum and petroleum products
- 5180 Alcoholic beverages
- 5190 Misc. nondurable goods

Retail Trade

Building materials, garden supplies and mobile home dealers

- 5220 Building materials dealers
- 5251 Hardware stores
- 5265 Garden supplies and mobile home dealers

5300 General merchandise stores

Food stores

- 5410 Grocery stores
- 5490 Other food stores

Automotive dealers and service stations

- 5515 Motor vehicle dealers
- 5541 Gasoline service stations
- 5598 Other automotive dealers

5600 Apparel and accessory stores

5700 Furniture and home furnishings stores

5800 Eating and drinking places

Misc. retail stores

- 5912 Drug stores and proprietary stores
- 5921 Liquor stores
- 5995 Other retail stores

Finance, Insurance and Real Estate

Banking

Code

- 6030 Mutual savings banks
- 6060 Bank holding companies
- 6090 Banks, except mutual savings banks and bank holding companies

Credit agencies other than banks

- 6120 Savings and loan associations
- 6140 Personal credit institutions
- 6150 Business credit institutions
- 6199 Other credit agencies

Security, commodity brokers and services

- 6210 Security brokers, dealers and flotation companies
- 6299 Commodity contracts brokers and dealers; security and commodity exchanges; and allied services

Insurance

- 6355 Life insurance
- 6356 Mutual insurance, except life or marine and certain fire or flood insurance companies
- 6359 Other insurance companies
- 6411 Insurance agents, brokers and service

Real estate

- 6511 Real estate operators and lessors of buildings
- 6516 Lessors of mining, oil and similar property
- 6518 Lessors of railroad property and other real property
- 6530 Condominium management and cooperative housing associations
- 6550 Subdividers and developers
- 6599 Other real estate

Holding and other investment companies, except bank holding companies

- 6744 Small business investment companies
- 6749 Other holding and investment companies except bank holding companies

Services

7000 Hotels and other lodging places

7200 Personal services

Business services

- 7310 Advertising
- 7389 Business services, except advertising

Auto repair; misc. repair services

- 7500 Auto repair and services
- 7600 Misc. repair services

Amusement and recreation services

- 7812 Motion picture production, distribution and services
- 7830 Motion picture theaters
- 7900 Amusement and recreation services, except motion pictures

Other services

- 8015 Offices of physicians, including osteopathic physicians
- 8021 Offices of dentists
- 8040 Offices of other health practitioners
- 8050 Nursing and personal care facilities
- 8060 Hospitals
- 8071 Medical laboratories
- 8099 Other medical services
- 8111 Legal services
- 8200 Educational services
- 8300 Social services
- 8600 Membership organizations
- 8911 Architectural and engineering services
- 8930 Accounting, auditing and bookkeeping
- 8980 Miscellaneous services (including veterinarians)

1997

Los Angeles Revitalization Zone Deduction and Credit Summary

3806

Attach to your California tax return.

Name(s) as shown on return

Social security or California corporation number

FEIN

A. Check the appropriate box for your entity type:

- ☐ Individual ☐ Estate ☐ Trust ☐ C corporation ☐ S corporation ☐ Partnership
☐ Exempt Organization ☐ Limited Liability Company ☐ Limited Liability Partnership

B. Enter the name of the Los Angeles Revitalization Zone (LARZ) business: _____**C.** Enter the address (actual location) where the LARZ business is conducted. _____**D.** Enter the name of the LARZ in which the business and/or investment activity is located. See General Information E. _____**E.** Principal Business Activity Code number of the LARZ business _____

Enter the 4-digit number from the Principal Business Activity Code Chart on page 20.

F. Total number of employees in the LARZ. _____**G.** Number of employees included in the computation of the hiring credit, if claimed _____**H.** Number of new employees included in the computation of the hiring credit, if claimed _____**I.** Gross annual receipts of the business _____**J.** Total asset value of the business. _____**Part I Credits Used****1** Hiring and sales or use tax credits claimed on the current year return:**a** Construction hiring credit from Worksheet VII, line 8A, column (f) or line 11, column (f) _____**b** General hiring credit from Worksheet VII, line 9A, column (f) or line 12, column (f) _____**c** Sales or use tax credit from Worksheet VII, line 10A, column (f) or line 13, column (f) _____Add line 1a, line 1b, and line 1c **1** _____**Note:** To figure the amount of credits to carry over, complete Worksheet VII on Side 2.**Part II Business Expense Deduction for Equipment Purchases****2** Enter the cost of qualified property purchased for the LARZ that is being deducted as a current year business expense, from Worksheet III, Section A, line 2, column (b) **2** _____

ELECTION: The act of deducting a portion of the cost of any property as a current year expense rather than adding it to the capital account constitutes an election to treat that property in accordance with R&TC Sections 17266 or 24356.4. That election may not be revoked except with the written consent of the Franchise Tax Board (FTB).

Part III Net Interest Deduction for Lenders**3** Enter the amount of net interest received on loans to businesses located in the LARZ from Worksheet IV, line 2, column (f) **3** _____**Part IV Net Operating Loss Carryover and Deduction****4a** Enter the LARZ NOL carryover from prior years from Worksheet VI, Section C, line 14, column (b). **4a** _____

4b Enter the total LARZ NOL deduction used in the current year from Worksheet VI, Section C, line 14, column (c).
Enter this amount on Form 540, Schedule CA, line 21e, column B; Form 100, line 20; Form 100S, line 19;
or Form 109, line 3 or line 11. **4b** _____

4c Enter the LARZ NOL to carry over to future years from Worksheet VI, Section C, line 14, column (e) **4c** _____

ELECTION: For those taxpayers eligible for an NOL carryover under more than one subdivision of R&TC Section 17276 or 24416, the act of claiming an NOL carryover on this form constitutes the **irrevocable** election to apply the loss under R&TC Section 17276.2(b) or 24416.2(b), for taxpayers operating a trade or business within the LARZ. If you elect to carry over an NOL under the LARZ provisions, you cannot carry over any other type and amount of NOL from this year.

Part V Portion of Business Attributable to the LARZ**5** Enter the average apportionment percentage of your business that is in the LARZ from Worksheet V, Section A, line 4. If your operation is wholly within the LARZ the average apportionment percentage is 100% (1.00) **5** _____**Part VI Recapture of Deduction and Credits****6** Recapture of construction hiring credit from Worksheet I, Section C, line 2, column (b) **6** _____**7** Recapture of hiring credit from Worksheet I, Section C, line 2, column (c) **7** _____**8** Recapture of sales or use tax credit from Worksheet II, Section B, line 2, column (b) **8** _____**9** Recapture of business expense deduction from Worksheet III, Section B, line 2, column (b) **9** _____

Worksheet VII Computation of Credit Limitations — Los Angeles Revitalization Zone
Part I Computation of Limitations. See instructions.

1 Trade or business income or loss. Individuals: Enter the amount from the Income Worksheet, line 15, column (c) (page 14) on this line and on line 3 (skip line 2). See instructions on page 17. Multistate apportioning corporations enter the amount from Schedule R, line 13b for the corporation doing business in the zone.	1	
2 Corporations: Enter the average apportionment percentage from Worksheet V, Section A, line 4. See instructions. . . .	2	
3 Multiply line 1 by line 2. See instructions	3	
4 Enter the LARZ NOL deduction from Worksheet VI, Section C, line 14, column (c)	4	
5 LARZ taxable income. Subtract line 4 from line 3.	5	
6a Compute the amount of tax due using the amount on line 5. See instructions.	6a	
6b Enter the amount of tax from Form 540, line 24; Form 541, line 21; Form 100, line 22 or Form 100S, line 21. Corporations and S corporations, see instructions	6b	
7 Enter the smaller of line 6a or line 6b. This is the limitation based on LARZ income. Go to Part II, Part III or Part IV. See instructions	7	

Part II Limitation of Credits for Corporations, Individuals and Estates and Trusts

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit (Add Col. (b) and Col. (c))	(e) Limitation Based on LARZ Business Income	(f) Used on Schedule P (Can never be greater than Col. (d) or Col. (e))	(g) Carryover (Col. (d) Minus Col. (e))
8	Construction Hiring						
9	General Hiring						
10	Sales or Use Tax						

Part III Limitation of Credits for S Corporations only. See instructions.

	(a) Credit Name	(b) Credit Amount (See Instructions)	(c) S Corporation Credit (Multiply Col. (b) by 1/3)	(d) Total Prior Year Carryover	(e) Total Credit (Add Col. (c) and Col. (d))	(f) Credit Used this Year by S Corporation	(g) Carryover (Col. (e) Minus Col. (f))
11	Construction Hiring						
12	General Hiring						
13	Sales or Use Tax						

Part IV Limitation of Credits for Corporations and S Corporations Subject to Paying Only the Minimum Franchise Tax


	(a) Credit Name	(b) Credit Amount (See instructions)	(c) Total Prior Year Carryover	(d) Total Credit Carryover (Add Col. (b) and Col. (c))
14	Construction Hiring			
15	General Hiring			
16	Sales or Use Tax			

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Los Angeles Revitalization Zone Deduction and Credit Summary

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Attach to your California tax return.

Name(s) as shown on return

Social security or California corporation number

FEIN

A. Check the appropriate box for your entity type:

- ☐ Individual ☐ Estate ☐ Trust ☐ C corporation ☐ S corporation ☐ Partnership
☐ Exempt Organization ☐ Limited Liability Company ☐ Limited Liability Partnership

B. Enter the name of the Los Angeles Revitalization Zone (LARZ) business: _____**C.** Enter the address (actual location) where the LARZ business is conducted. _____**D.** Enter the name of the LARZ in which the business and/or investment activity is located. See General Information E. _____**E.** Principal Business Activity Code number of the LARZ business _____

Enter the 4-digit number from the Principal Business Activity Code Chart on page 20.

F. Total number of employees in the LARZ. _____**G.** Number of employees included in the computation of the hiring credit, if claimed _____**H.** Number of new employees included in the computation of the hiring credit, if claimed _____**I.** Gross annual receipts of the business _____**J.** Total asset value of the business. _____**Part I Credits Used****1** Hiring and sales or use tax credits claimed on the current year return:**a** Construction hiring credit from Worksheet VII, line 8A, column (f) or line 11, column (f) _____**b** General hiring credit from Worksheet VII, line 9A, column (f) or line 12, column (f) _____**c** Sales or use tax credit from Worksheet VII, line 10A, column (f) or line 13, column (f) _____Add line 1a, line 1b, and line 1c **1** _____**Note:** To figure the amount of credits to carry over, complete Worksheet VII on Side 2.**Part II Business Expense Deduction for Equipment Purchases****2** Enter the cost of qualified property purchased for the LARZ that is being deducted as a current year business expense, from Worksheet III, Section A, line 2, column (b) **2** _____

ELECTION: The act of deducting a portion of the cost of any property as a current year expense rather than adding it to the capital account constitutes an election to treat that property in accordance with R&TC Sections 17266 or 24356.4. That election may not be revoked except with the written consent of the Franchise Tax Board (FTB).

Part III Net Interest Deduction for Lenders**3** Enter the amount of net interest received on loans to businesses located in the LARZ from Worksheet IV, line 2, column (f) **3** _____**Part IV Net Operating Loss Carryover and Deduction****4a** Enter the LARZ NOL carryover from prior years from Worksheet VI, Section C, line 14, column (b). **4a** _____

4b Enter the total LARZ NOL deduction used in the current year from Worksheet VI, Section C, line 14, column (c).
Enter this amount on Form 540, Schedule CA, line 21e, column B; Form 100, line 20; Form 100S, line 19;
or Form 109, line 3 or line 11. **4b** _____

4c Enter the LARZ NOL to carry over to future years from Worksheet VI, Section C, line 14, column (e) **4c** _____

ELECTION: For those taxpayers eligible for an NOL carryover under more than one subdivision of R&TC Section 17276 or 24416, the act of claiming an NOL carryover on this form constitutes the **irrevocable** election to apply the loss under R&TC Section 17276.2(b) or 24416.2(b), for taxpayers operating a trade or business within the LARZ. If you elect to carry over an NOL under the LARZ provisions, you cannot carry over any other type and amount of NOL from this year.

Part V Portion of Business Attributable to the LARZ**5** Enter the average apportionment percentage of your business that is in the LARZ from Worksheet V, Section A, line 4. If your operation is wholly within the LARZ the average apportionment percentage is 100% (1.00) **5** _____**Part VI Recapture of Deduction and Credits****6** Recapture of construction hiring credit from Worksheet I, Section C, line 2, column (b) **6** _____**7** Recapture of hiring credit from Worksheet I, Section C, line 2, column (c) **7** _____**8** Recapture of sales or use tax credit from Worksheet II, Section B, line 2, column (b) **8** _____**9** Recapture of business expense deduction from Worksheet III, Section B, line 2, column (b) **9** _____

Worksheet VII Computation of Credit Limitations — Los Angeles Revitalization Zone
Part I Computation of Limitations. See instructions.

1 Trade or business income or loss. Individuals: Enter the amount from the Income Worksheet, line 15, column (c) (page 14) on this line and on line 3 (skip line 2). See instructions on page 17. Multistate apportioning corporations enter the amount from Schedule R, line 13b for the corporation doing business in the zone.	1	
2 Corporations: Enter the average apportionment percentage from Worksheet V, Section A, line 4. See instructions. . . .	2	
3 Multiply line 1 by line 2. See instructions	3	
4 Enter the LARZ NOL deduction from Worksheet VI, Section C, line 14, column (c)	4	
5 LARZ taxable income. Subtract line 4 from line 3.	5	
6a Compute the amount of tax due using the amount on line 5. See instructions.	6a	
6b Enter the amount of tax from Form 540, line 24; Form 541, line 21; Form 100, line 22 or Form 100S, line 21. Corporations and S corporations, see instructions	6b	
7 Enter the smaller of line 6a or line 6b. This is the limitation based on LARZ income. Go to Part II, Part III or Part IV. See instructions	7	

Part II Limitation of Credits for Corporations, Individuals and Estates and Trusts

	(a) Credit Name	(b) Credit Amount	(c) Total Prior Year Carryover	(d) Total Credit (Add Col. (b) and Col. (c))	(e) Limitation Based on LARZ Business Income	(f) Used on Schedule P (Can never be greater than Col. (d) or Col. (e))	(g) Carryover (Col. (d) Minus Col. (e))
8	Construction Hiring						
9	General Hiring						
10	Sales or Use Tax						

Part III Limitation of Credits for S Corporations only. See instructions.

	(a) Credit Name	(b) Credit Amount (See Instructions)	(c) S Corporation Credit (Multiply Col. (b) by 1/3)	(d) Total Prior Year Carryover	(e) Total Credit (Add Col. (c) and Col. (d))	(f) Credit Used this Year by S Corporation	(g) Carryover (Col. (e) Minus Col. (f))
11	Construction Hiring						
12	General Hiring						
13	Sales or Use Tax						

Part IV Limitation of Credits for Corporations and S Corporations Subject to Paying Only the Minimum Franchise Tax


	(a) Credit Name	(b) Credit Amount (See instructions)	(c) Total Prior Year Carryover	(d) Total Credit Carryover (Add Col. (b) and Col. (c))
14	Construction Hiring			
15	General Hiring			
16	Sales or Use Tax			

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How to Get California Tax Information

(Keep This Page For Future Use)

General Toll-Free Phone Service

Our general toll-free telephone service is available from 7:00 a.m. until 8:00 p.m. Monday through Friday from January 2 through April 15, 1998. The best times to call are between 7:00 a.m. and 10:00 a.m. and between 6:00 p.m. and 8:00 p.m. Service is also available on Saturdays, April 4 and April 11, from 8:00 a.m. until 5:00 p.m. After April 15, service is available Monday through Friday, from 8:00 a.m. until 5:00 p.m.

From within the
United States, 1-800-852-5711
From outside the
United States, 1-916-845-6500
(not toll-free)

For hearing impaired
with TDD 1-800-822-6268
For federal tax questions,
call the IRS at 1-800-829-1040

Asistencia Bilingüe en Español

Para obtener servicios en Español y asistencia para completar su declaración de impuestos/formularios, llame al número de teléfono (anotado arriba) que le corresponde.

Economic Development Area Information

Further information about LARZ tax incentives is available from:

FRANCHISE TAX BOARD
ECONOMIC DEVELOPMENT AREA
INFORMATION
Telephone: (916) 845-3464

Letters

If you find it necessary to write rather than call, please address your letter to:

ATTN RESOURCE DEVELOPMENT
SECTION
FRANCHISE TAX BOARD
PO BOX 1468
SACRAMENTO CA 95812-1468

Please allow eight to ten weeks for a reply. Include your California identification number and daytime telephone number on all correspondence.

Your Rights as a Taxpayer

Our goal at the Franchise Tax Board is to make certain that your rights are protected so that you will have the highest confidence in the integrity, efficiency and fairness of our state tax system. FTB Publication 4058, California Taxpayers' Bill of Rights, includes information on your rights as a California taxpayer, the Taxpayers' Rights Advocate Program and how you can request written advice from the FTB on whether a particular transaction is taxable. You can order FTB Pub. 4058 by calling or writing the FTB using the address above for letters.

Where to Get Income Tax Forms

By Internet – If you have Internet access, you may download, view and print 1994, 1995, 1996 and 1997 California tax forms and publications. Our Internet address is:

<http://www.ftb.ca.gov>

By phone – Use F.A.S.T. to order 1994, 1995, 1996 and 1997 California personal income tax forms, 1997 California corporate tax forms and 1997 federal forms. To order a form:

- Refer to the list in your tax booklet and find the code number for the form you want to order.
- Call 1-800-338-0505 and follow the instructions.

Please allow two weeks to receive your order. If you live outside California, please allow three weeks to receive your order.

In person – Most libraries, post offices and banks provide free California tax booklets during the filing season. Many libraries and some quick print businesses have forms and schedules for you to photocopy (you may have to pay a nominal fee). Note that employees at libraries, post offices, banks and quick print businesses cannot provide tax information or assistance.

By mail – Write to:

TAX FORMS REQUEST UNIT
FRANCHISE TAX BOARD
PO BOX 307
RANCHO CORDOVA CA 95741-0307



F.A.S.T. Toll-Free Phone Service

(Keep This Page For Future Use)

Call Fast Answers about State Taxes, the F.A.S.T. toll-free phone service you can use to:

- Find out about your current year tax refund;
- Order most California and federal income tax forms; and
- Hear recorded answers to many of your questions about California taxes.

F.A.S.T. is available in English and Spanish to callers with touch-tone telephones.

When is F.A.S.T. Available?

To answer your questions, F.A.S.T. is available 24 hours a day, seven days a week.

How To Use F.A.S.T.

Have paper and pencil ready to take notes.

Call from with the
United States 1-800-338-0505
Call from outside the
United States (not toll-free) . . . 1-916-845-6600

To Find Out About Your Current Year Personal Income Tax Refund

You should wait at least two weeks after you file your tax return before you call to find out about your refund. You will need your social security number, the numbers in your street address, box number or route number, and your zip code to use this service. Refund status information is available from 6:00 a.m. until 10:00 p.m., seven days a week, except state holidays. Call the F.A.S.T. number, select refund information and follow the recorded instructions.

To Order Forms

See the instructions for ordering forms on page 27. This service is available from 6:00 a.m. until 10:00 p.m., seven days a week, except state holidays.

To Hear Answers To Your California Tax Questions

Recorded answers to your tax questions are available 24 hours a day, seven days a week. To receive answers to any of the following questions, call the F.A.S.T. number, select general tax information and enter the three-digit code when instructed to do so.

Personal Income Tax Information

Code – Question

Filing Assistance:

- 100 – Do I need to file a return?
- 111 – Which form should I use?
- 112 – How do I file electronically and get a fast refund?
- 200 – Where can I pick up a form today?
- 201 – How can I get an extension to file?
- 202 – There is no envelope in the booklet. Where do I send my return?
- 203 – How much do I get for renter's credit?
- 204 – I never received a Form W-2. What do I do?
- 205 – I have no withholding taken out. What do I do?
- 206 – Do I have to attach a copy of my federal return?
- 207 – Should I file my return even though I do not have the money to pay?
- 208 – How do I figure my estimate tax payments?
- 209 – I lived in California for part of the year. Do I have to file a return?
- 210 – I do not live in California. Why do I have to file a return?
- 211 – How do I figure my IRA deduction?
- 212 – How do I claim my disaster related loss?
- 215 – Who is the qualifying individual for the purpose of head of household filing status?
- 216 – I'm due a refund. Do I still need to file a return?
- 217 – I am currently/was in the military. Do I have to file a California return?
- 218 – I'm in the military. Do I have to use the same filing status as federal?
- 219 – I sold my personal residence. How do I report the sale to California?

- 220 – There is no difference in my state and federal depreciation, business income and capital gain income. What do I do?
- 221 – What is community property?
- 222 – How much can I deduct for vehicle license fees?
- 227 – How do I get a refund of excess SDI?
- 239 – Where can I get help with filing my income tax return?
- 240 – Does a tax return have to be filed for a deceased taxpayer?

Refunds:

- 300 – My spouse has passed away. You sent a refund with both our names on it. What do I do?
- 301 – I got a letter saying you sent my refund to another agency. Why?

Penalties:

- 400 – I have an extension of time to file my return. Why did I get a penalty?
- 401 – I filed my return on time. Why did I get a penalty?
- 402 – How can I protest a penalty?
- 403 – What is the estimate penalty rate?

Notices and Bills:

- 500 – I received a bill and I cannot pay it in full. What do I do?
- 501 – Why didn't you give me credit for my withholding?
- 502 – You didn't give me credit for my child as a dependent. What do I do?
- 503 – I don't have a homeowner's exemption. Why did you deny my renter's credit?
- 504 – I'm head of my house. Why was I denied head of household filing status?
- 505 – Why was my IRA denied?
- 506 – How do I get my Form 1099-G corrected?
- 508 – I received a notice that didn't show all payments made. How do I get credit for them?

Tax For Children Under 14:

- 601 – Can my child take a personal exemption credit when I claim her or him as a dependent on my return?
- 602 – Federal law limits the standard deduction. Is the state law the same?

Miscellaneous

- 610 – Can I pay my taxes with a credit card?
- 611 – What address do I send my payment to?
- 612 – I mailed my return and haven't heard anything. Should I send a copy of my return?
- 613 – I forgot to attach my Form(s) W-2 when I mailed my return. What do I do?
- 614 – I forgot to attach a copy of my federal return. What do I do?
- 615 – How do I get a copy of my state tax return?
- 616 – What should I do if my federal tax return was examined and changed by the IRS?
- 617 – What are the current interest rates?

Corporation Franchise and Income Tax Information

Code – Question

Filing Assistance

- 715 – If my actual tax is less than the minimum franchise tax, what figure do I put on line 23 of Form 100?
- 717 – What are the tax rates for corporations?
- 718 – How do I get an extension of time to file?
- 722 – When do I have to file a short-period return?
- 730 – May I claim net operating losses in the first year?
- 731 – Are corporations allowed to use MACRS/ACRS or Section 179 expensing?
- 733 – Can the prepayment to the Secretary of State be applied to my last year of business?
- 734 – What is the difference between franchise tax and income tax?

S Corporations

- 704 – Is an S corporation subject to the minimum franchise tax?
- 705 – Are S corporations required to file estimate payments?
- 706 – What forms do S corporations file?
- 707 – The tax for my S corporation is less than the minimum franchise tax. What figure do I put on line 22 of Form 100S?
- 708 – Where do S corporations make the state tax adjustment on Schedule K-1 (100S)?

Exempt Organizations

- 709 – How do I get tax-exempt status?
- 710 – Does an exempt organization have to file Form 199?
- 735 – How can an exempt organization incorporate without paying corporation fees and costs?
- 736 – I have exempt status. Do I need to file Form 100 or Form 109 in addition to Form 199?

Minimum Tax and Estimate Tax

- 711 – Why can't I claim my prepayment tax as credit or estimate payment on my return?
- 712 – What is the minimum franchise tax?
- 714 – I'm not doing business; do I have to pay the minimum franchise tax?
- 716 – When are my estimate payments due?

Billings and Miscellaneous Notices

- 723 – I received a bill for \$250. What is this for?
- 728 – Why was my corporation suspended?
- 729 – Why is my subsidiary getting a request for a return when we file a combined report?

Tax Clearance

- 724 – How do I dissolve my corporation?
- 725 – What do I have to do to get a tax clearance?
- 726 – How long will it take to get a tax clearance certificate?
- 727 – My corporation was suspended/forfeited. Can I still get a tax clearance?

Miscellaneous

- 617 – What are the current interest rates?
- 700 – Who do I need to contact to start a business?
- 701 – I need a state ID number for my business. Who do I contact?
- 702 – Can you send me an employer's tax guide?
- 703 – How do I incorporate?
- 719 – How do I properly identify my corporation when dealing with the Franchise Tax Board?
- 720 – How do I change my corporation name?
- 721 – How do I change my accounting period?
- 732 – What is the Water's-Edge Election?
- 737 – Where do I send my payment?
- 738 – What is electronic funds transfer?
- 739 – How do I get a copy of my state corporate tax return?